

**Marion County Railroad Authority
Jasper, Tennessee**

Audited Financial Statements

June 30, 2010

Marion County Railroad Authority
Jasper, Tennessee
Audit Report
June 30, 2010

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**Marion County Railroad Authority
Jasper, Tennessee
Introductory Section - Unaudited
June 30, 2010**

Roster of Board Members

Board Members

David Kirk, Chairman
Jasper, TN

John Graham, Vice Chairman
Jasper, TN

Sheila Grider, Secretary - Treasurer
Jasper, TN

Billy Simpson, Director
Jasper, TN

David Jackson, Director
Kimball, TN

Mike Killian, Director
South Pittsburg, TN

Mark Myers, Director
South Pittsburg, TN

**MARION COUNTY RAILROAD AUTHORITY
JASPER, TN
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
YEAR ENDED JUNE 30, 2010**

As management of Marion County Railroad Authority ("Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2010.

Financial Highlights

- The assets of the Authority exceeded the liabilities at the close of business on June 30, 2010, by \$160,744.39 (net assets). Of this amount, \$160,744.39 (unrestricted net assets) may be used to meet the Authority's ongoing obligations to citizens and creditors.
- During the fiscal year ended June 30, 2010, the Authority's total net assets decreased by \$5600.00.
- At the end of the fiscal year ended June 30, 2010, unreserved fund balances totaled \$160,744.39.
- The only payable that the Authority had at June 30, 2010 was due to the engineering firm that represents the Authority with TDOT.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Authority that are principally supported by contracts with TDOT and subcontracts with railroad operators and vendors that are intended to recover all or a significant portion of their costs through a rebill and pass-through system of reimbursement for the Authority, operators and vendors.

Fund financial statements - A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local government units, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the Authority are in the category of *government funds*.

Governmental funds - *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *government*

activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$166,344.39 at the close of the fiscal year ended June 30, 2009. The cash balance in the Authority's checking account is used for payment of the month-to-month operating expenses.

Financial statements required as part of this document

Section 11b of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* states that the government must submit condensed financial information derived from government-wide financial statements, comparing the current year to the prior year. The Authority's condensed statements to meet this requirement are as follows:

Condensed Statement of Net Assets

	<u>June 30, 2009</u>	<u>June 30, 2010</u>
Current and other assets	\$ 283,422.39	\$ 160,744.39
Accounts receivable	<u>35,659.00</u>	<u>4,090.76</u>
Total assets	319,081.39	164,835.15
Short-term liabilities		
Accounts payable	<u>152,737.00</u>	<u>\$ 6,574.48</u>
Total liabilities	152,737.00	\$ 6,574.48
Net assets:		
Unrestricted	<u>166,344.39</u>	<u>158,260.67</u>
Total net assets	<u>\$ 166,344.39</u>	<u>\$ 158,260.67</u>

Condensed Statement of Activities

	<u>June 30, 2009</u>	<u>June 30, 2010</u>
Revenues:		
Program revenues:		
Operating grants	\$ 171,221.49	\$ 10,043.59
Sale of used track	<u>231,903.00</u>	<u>0.00</u>
Total revenues	403,124.49	10,043.59
Expenses:		
Railroad rehabilitation	290,102.49	12,527.31
Other general government	<u>3,684.38</u>	<u>5,600.00</u>
Total expenses	293,786.87	18,127.31
Changes in net assets	109,337.62	(8,083.72)
Beginning net assets	<u>57,006.77</u>	<u>166,344.39</u>
Ending net assets	<u>\$ 166,344.39</u>	<u>\$ 158,260.67</u>

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

John P. Graham, Chairman
Marion County Railroad Authority
Marion County Courthouse
Jasper, TN 37347

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Independent Auditors' Report

To the Board of Directors
Marion County Railroad Authority
Jasper, Tennessee

We have audited the accompanying financial statements of the governmental activities and the major fund of the Marion County Railroad Authority, a jointly governed authority of Marion County, Tennessee and the municipalities of Jasper, Kimball, and South Pittsburg, as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Marion County Railroad Authority, as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2011, on our consideration of the Marion County Railroad Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through iii be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Marion County Railroad Authority. The introductory section and schedule listed in the table of contents and included on pages a and 10 are presented for additional analysis and are not a required part of the financial statements of Marion County Railroad Authority. We have not subjected the introductory section to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it or provide any assurance on it. The schedule listed in the table of contents was subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Bean, Rhoton & Kelley, PLLC
February 4, 2011

Marion County Railroad Authority
Jasper, Tennessee
Government-Wide Statement of Net Assets
June 30, 2010

	<u>Governmental Activities</u>	<u>Total</u>
ASSETS		
Cash and cash equivalents	\$ 160,744.39	\$ 160,744.39
Accounts receivable	4,090.76	4,090.76
Total assets	<u>\$ 164,835.15</u>	<u>\$ 164,835.15</u>
LIABILITIES		
Liabilities:		
Accounts payable and accrued expenses	\$ 6,574.48	\$ 6,574.48
Total liabilities	<u>\$ 6,574.48</u>	<u>\$ 6,574.48</u>
NET ASSETS		
Unrestricted	\$ 158,260.67	\$ 158,260.67
Total net assets	<u>\$ 158,260.67</u>	<u>\$ 158,260.67</u>

See accompanying notes to financial statements.

Marion County Railroad Authority
Jasper, Tennessee
Government-Wide Statement of Activities
Year ended June 30, 2010

	<u>Total</u>	<u>Function/ Program:</u>	
		<u>Program</u>	<u>Administration</u>
Expenses:			
Engineering services	\$ 12,527.31	\$ 12,527.31	\$ 0.00
Administrative	5,600.00	0.00	5,600.00
Total expenses	<u>18,127.31</u>	<u>\$ 12,527.31</u>	<u>\$ 5,600.00</u>
Program Specific Operating Grants and Contributions:			
Contributions from State of Tennessee	<u>10,043.59</u>		
Total program specific operating revenues	<u>10,043.59</u>		
 Change in net assets	 (8,083.72)		
 Net assets - beginning	 <u>166,344.39</u>		
Net assets - ending	<u>\$ 158,260.67</u>		

See accompanying notes to financial statements.

Marion County Railroad Authority
Jasper, Tennessee
Balance Sheet
June 30, 2010

	<u>General</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and cash equivalents	\$ 160,744.39	\$ 160,744.39
Accounts receivable	4,090.76	4,090.76
Total assets	<u>\$ 164,835.15</u>	<u>\$ 164,835.15</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 6,574.48	\$ 6,574.48
Total liabilities	<u>6,574.48</u>	<u>6,574.48</u>
Fund balances:		
Unreserved	<u>158,260.67</u>	<u>158,260.67</u>
Total fund balances	<u>158,260.67</u>	<u>158,260.67</u>
Total liabilities and fund balances	<u>\$ 164,835.15</u>	<u>\$ 164,835.15</u>

See accompanying notes to financial statements.

Marion County Railroad Authority
Jasper, Tennessee
Statement of Revenues, Expenditures, and Changes in Fund Balance
Year Ended June 30, 2010

	<u>General</u>	<u>Total Governmental Funds</u>
REVENUES		
Contributions from State of Tennessee	\$ 10,043.59	\$ 10,043.59
Total revenues	<u>10,043.59</u>	<u>10,043.59</u>
EXPENDITURES		
Engineering services	12,527.31	12,527.31
Administrative	<u>5,600.00</u>	<u>5,600.00</u>
Total expenditures	<u>18,127.31</u>	<u>18,127.31</u>
Excess of revenues over expenditures	<u>(8,083.72)</u>	<u>(8,083.72)</u>
Net change in fund balance	(8,083.72)	(8,083.72)
Fund balance - beginning	<u>166,344.39</u>	<u>166,344.39</u>
Fund balance - ending	<u>\$ 158,260.67</u>	<u>\$ 158,260.67</u>

See accompanying notes to financial statements.

Marion County Railroad Authority
Jasper, Tennessee
Notes to Financial Statements
June 30, 2010

1. Summary of Significant Accounting Policies -

Business Activity

The Marion County Railroad Authority was created on September 28, 1998 by the Marion County Board of Commissioners in accordance with the provisions of T.C.A. 7-56-201. The primary purpose of the Authority is to provide for the continuation of rail service in Marion County. The Authority did not become financially active until fiscal 2000. The Authority is a jointly governed authority operated by Marion County and the municipalities of South Pittsburg, Kimball, and Jasper, Tennessee. Marion County and the municipalities have no ongoing financial responsibility for the Authority. The Authority is a single purpose entity that does not have any component units and is not a component unit of any entity.

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, as well as the reported revenues and expenses. Actual results could vary from the estimates that were used.

The Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Basic Financial Statements-Government-Wide Statements

The Authority's basic financial statements include both government-wide reporting and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as governmental or business type. The Authority's general administrative services are classified as governmental activities. There are no business-type activities.

In the government-wide Statement of Net Assets, the governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in three parts-invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The government-wide Statement of Activities reports both the gross and the net cost of the Authority's functions. The functions are also supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function.

The net costs (by function) are normally covered by general revenue.

The Authority does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Authority as an entity and the change in the Authority's net assets resulting from the current year's activities.

Basic Financial Statements-Fund Financial Statements

The financial transactions of the Authority are reported in individual funds in the fund financial statement. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

Marion County Railroad Authority
Jasper, Tennessee
Notes to Financial Statements (continued)
June 30, 2010

1. Summary of Significant Accounting Policies (continued) -

The following fund types are used by the Authority:

1. Governmental Funds:

The focus of the governmental fund's measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Authority:

- General fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:

Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Budgets

The Authority does not have a legal requirement to operate under an adopted budget. External approval or review of a budget is not mandated.

Capital Assets

The Authority does not have any infrastructure and does not retain title to any of the improvements made to the tracks and bridges. The Railroad Authority has no capital assets.

2. Cash Deposits -

The Authority is authorized to invest in the following types of securities and indebtedness, in accordance with governing statutes:

- (1) Bonds, notes, treasury bills or similar types of indebtedness to the United States.
- (2) Non-convertible debt including Federal Home Loan Bank, Federal National Mortgage Association, Federal Farm Credit Bank, and Student Loan Marketing Association.

Marion County Railroad Authority
Jasper, Tennessee
Notes to Financial Statements (continued)
June 30, 2010

2. Cash Deposits (continued) -

- (3) Other obligations not specified above which provide guaranteed principal and interest by the United States or any of its agencies.
- (4) Repurchase agreements which involve obligations of the United States or its agencies provided the term of the repurchase agreement does not extend beyond the maturity date of the obligation and the market value of the security exceeds the cost of the security.
- (5) Money market funds invested in any of the aforementioned securities.

The carrying amount of total cash deposits (including petty cash) at June 30, 2010, is \$160,744.39. With the exception of petty cash, all cash deposits were entirely covered by federal depository insurance or by collateral held by the Authority's custodial banks in the Authority's name.

3. Grants -

During the year ended June 30, 2010, the Authority received grants from the Tennessee Department of Transportation. These grants were for the rehabilitation of tracks and bridges for the short-line railroad that serves the Jasper, Kimball and South Pittsburg areas of Marion County. The grants included engineering services related to the rehabilitation. The tracks and bridges are not owned by the Authority or by the county and municipal governments involved. Accordingly, the Authority does not have legal title to the improvements. The grant receipts are recorded as revenues and the expenditures are recorded as expenditures and changes in fund balance.

4. Risk -

Since the Authority does not retain legal title to the railroad improvements, liability and casualty insurance is the responsibility of the various contractors and owner of the railroad. The Authority is named as additional insured on the policies.

Other Supplemental Information

**Marion County Railroad Authority
Jasper, Tennessee
Schedule of Expenditures of Federal Awards
and State Financial Assistance
Year ended June 30, 2010**

Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Receipts	Expenditures	Ending (Accrued) Deferred
Federal Awards	-	-	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
State Assistance -						
TN Department of Transportation	-	Z-08020934	0.00	808.54	808.54	0.00
TN Department of Transportation	-	Z-07033873	0.00	375.96	375.96	0.00
TN Department of Transportation	-	Z-07033891	0.00	1,129.70	1,129.70	0.00
TN Department of Transportation	-	Z-08020878	0.00	2,146.42	2,146.42	0.00
TN Department of Transportation	-	Z-09213042	0.00	1,439.76	1,439.76	0.00
TN Department of Transportation	-	Z-09213063	0.00	4,143.21	4,143.21	0.00
Total State Awards			0.00	10,043.59	10,043.59	0.00
Total State and Federal Awards			\$ 0.00	\$ 10,043.59	\$ 10,043.59	\$ 0.00

Basis of Presentation: The Schedule of Federal Awards and State Financial Assistance summarizes the expenditures of Marion County Railroad Authority for the year ended June 30, 2010. Schedule is presented using the accrual basis of accounting.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Marion County Railroad Authority
Jasper, Tennessee

We have audited the financial statements of the governmental activities and major fund of the Marion County Railroad Authority, a jointly governed authority of Marion County, Tennessee and the municipalities of Jasper, Kimball, and South Pittsburg, as of and for the year ended June 30, 2010, which collectively comprise the Marion County Railroad Authority's basic financial statements and have issued our report thereon dated February 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marion County Railroad Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marion County Railroad Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Marion County Railroad Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. (09-1). A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We do not consider any of the deficiencies in internal control over financial reporting to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marion County Railroad Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items (09-2).

Marion County Railroad Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Marion County Railroad Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, State of Tennessee, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bean, Rhoton and Kelley, PLLC
February 4, 2011

Marion County Railroad Authority
Schedule of Audit Findings and Responses
June 30, 2010

I. Summary of Auditors' Results

- A. The auditors' report expresses an unqualified opinion on the financial statements of the Marion County Railroad Authority.
- B. Significant deficiencies in internal control were disclosed by the audit and is discussed below in finding 09-1.
- C. Findings in compliance was disclosed by the audit and is discussed below in finding 09-2.

09-1 In our review of the overall accounting controls of the Authority's accounting system, we found several areas where proper segregation of duties might be obtained. - This problem still exists.

Recommendation:

Because of the lack of office staff, we do not believe a complete segregation of duties is possible that would eliminate all weaknesses in the Authority's accounting system. However, a thorough study of the internal control aspect of the accounting system should be considered by the Authority. Certain additional procedures and segregation of proper duties could increase the control over the assets.

Authority's Comment:

Because we have no employees, segregation of duties is a rough task. However, as time permits we hope to add additional controls over the accounting system in the future.

09-2 In our review of disbursements, it was noted that the checking account only requires one signature to write checks or withdraw funds. - This problem still exists.

Recommendation:

Dual signatures ensure a review of disbursements and additional examination of invoices about to be paid. Also, the list of acceptable signatures should be updated frequently to monitor access to those funds.

Authority's Comment:

We will correct this problem.